

Message Text

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SUBJECT: CATERPILLAR RESPONSE TO CRITICISMS

REF: JIDDA 4409

SUMMARY: CATERPILLAR EXECUTIVES POINT TO IMPROVEMENTS MADE IN BOTH DELIVERIES AND RESPONSIVENESS TO MARKET DEMANDS DURING PAST TWELVE MONTHS. TENFOLD INCREASE IN DEMAND FOR EXACTLY SAME TYPE OF MACHINES NEEDED FOR ALASKA PIPELINE JAMMED UP DELIVERIES BUT CURRENT MONTHLY SHIPMENTS APPROACHING LOCAL DEMAND.

JAPANESE COMPETITION STILL GAINING BUT AMERICAN FIRM EXPECTS ITS OWN SOLID DEALER NETWORK AND IMPROVEMENTS IN STAFFING TO CATCH UP BY MIDDLE - 1976. CONTINUED CONCENTRATION OF AMERICAN STAFF IN BEIRUT BY AMERICAN FIRMS WHOSE MAIN BUSINESS IS IN PENINSULA REMAINS A QUESTION IN OPINION OF EMBASSY. END SUMMARY

1. ECONOMIC COUNSELLOR VISITED CATERPILLAR DEALER AT INVITATION OF REGIONAL CAT REPRESENTATIVE ROBERT LEE WHO VISITS HERE WITH THREE MAN TEAM ABOUT ONCE A MONTH. IT IS CLEAR THAT PROBLEM OUTLINED IN REFTEL DID EXIST

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AND THAT THERE ARE REMAINING PROBLEMS OF SUPPLY AND

MAINTENANCE BUT THAT MUCH HAS BEEN ACCOMPLISHED SINCE 1974 AND MOST OF PROBLEMS WHICH HAVE DIVERTED MAJOR SALES TO JAPANESE COMPETITION ARE ON WAY TO SOLUTION.

2. LEE DESCRIBED 1974 WORLD-WIDE PROBLEM OF ALLOCATION OF LIMITED PRODUCTION OF CERTAIN MACHINES AND POINTED TO OIL SEARCH UPSWING IN STATES AND TO ALASKAN PIPELINE PRIORITIES THAT DENIED MACHINES FOR THIS MARKET IN SUFFICIENT QUANTITIES. JAPANESE HAD NO SUCH SURGE IN BUSINESS ELSEWHERE AND WERE LEFT FREE TO PENETRATE MARKET WITH 800-1000 MACHINES A YEAR ALLOCATED HERE IN SHIP LOAC LOTS.

3. ULTIMATE WEAKNESS, (BUT ADMITTED EARLY ADVANTAGE) OF JAPANESE APPROACH WAS IN HAVING ONLY FIVE PERCENTER AS AGENT. THEY MOVED IN THEIR OWN PEOPLE AND UPGRADED BOTH SUPPLY AND MAINTENANCE FACILITIES BUT IN LONG PULL THIS APPROACH WILL NOT IN LEE'S OPINION, BE AS EFFECTIVE AS UPGRADING LOCAL AGENT. NEW PHYSICAL FACILITIES FOR CAT AGENT ARE NOW BEING BUILT IN DAMMAM AND AMERICANS ARE BEING HIRED DIRECTLY BY AGENT (YUSUF ZAHED ORGANIZATION). LEE FEELS THAT THEY ARE PAST THE CRISES IN SUPPLY (150 MACHINES AT ONE TIME ARE BEING ORDERED ALMOST MONTHLY) AND THAT THIS IS NOW A 2000 MACHINE A YEAR MARKET. CAT HAS IT-SELF HELPED AGENT START PROCESS OF BUILDING UP SPARE PARTS THROUGHOUT COUNTRY BUT THIS PROCESS WILL TAKE TIME. MANPOWER PROBLEM IS ANOTHER LIMITING FACTOR.

4. REGARDING HAVING LOCAL OFFICE OF CAT HERE IN KINGDOM INSTEAD OF IN BEIRUT LEE MAINTAINS MONTHLY VISITS (AND ONE KIND OR ANOTHER OF CAT REPRESENTATIVES ARE IN COUNTRY ALMOST EVERY WEEK) AND FEELS THIS IS SUFFICIENT. KOEHRING REPRESENTATIVE HAS WITHDRAWN TO BEIRUT BECAUSE HE FELT ZAHED'S DID NOT WELCOME HIS CONTINUOUS PRESENCE HERE. WHILE THIS MAY BE TRUE, EMBASSY WANTS TO POINT OUT THAT MASSIVE JAPANESE PRESENCE AND QUICK, WESTERN-MADE RESPONSIVENESS IS STILL A FACTOR IN THEIR SUCCESS HERE. ZAHED'S ARE PLANNING TO HIRE EX-CAT EXPERTS BOTH IN MANAGEMENT AND ON THE TECHNICAL SIDE AND THIS MAY DO THE TRICK.

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5. LEE SEEMS GENUINELY COMPETENT AND COMPANY'S WORLD-WIDE SYSTEM OF BUILDING DEALERS IS UNDOUBTEDLY BETTED FOR SAUDI MARKET THAN JAPANESE CHOICE OF TRYING TO DO EVERYTHING THEMSELVES. STILL, WE SEE THE NEED (PERHAPS SOON) OF CATERPILLAR AND OTHER US COMPANIES SERVICING THEIR LOCAL OPERATIONS THROUGH LOCALLY RESIDENT AMCITS, AND NOT THROUGH REPRESENTATIVES TRAVELLING FROM BEIRUT. LARGEST SINGLE PRIVATE BUYER IN WORLD OF CATERPILLAR EQUIPMENT IS STILL BEIN LADIN ORGANIZATION).

CONGEN MAY WISH TO COMMENT FURTHER ON THE NEED FOR A CONTINUOUS AMERICAN PRESENCE IN KINGDOM.

6. EMBASSY HAS JUST LEARNED THAT DURING FIRST FIVE MONTHS OF 1975 JAPANESE EXPORTS TO THIS MARKET WERE FOR FIRST TIME APPARENTLY AHEAD OF AMERICAN EXPORTS AND JAPANESE ARE NOW MAINTAINING \$120 MILLION A MONTH PACE IN EXPORTS TO SAUDI ARABIA. EVEN THOUGH THEIR AUTOMOBILE EXPORTS ARE SLIGHTLY DOWN FROM 4,000 A MONTH CLIP OF LAST YEAR, HEAVY MACHINERY INCREASES INCLUDING EARTH-MOVING IN PARTICULAR, HAVE MORE THAN MADE UP FOR THE MARKET'S TURN TO THE HEAVIER AMERICAN CARS WHICH ARE FINALLY FREELY AVAILABLE. (THOUGH NOT IN ALL MODELS THAT COULD SELL HERE.)

THE U.S. ACCOMPLISHMENT IN PUSHING SAUDI ARABIA OVER THE BILLION DOLLAR A YEAR MARK SHOULD BE SEEN IN THE CONTEXT OF AN EVEN MORE REMARKABLE JAPANESE EFFORT.
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